Executive Summary

- The Uruguay Round agreement was actively supported by the developing world to further develop the rules governing international trade; in particular the developing world will gain from improved market access, for greater security against arbitrary use of instruments such as anti-dumping and countervailing duties and safeguard actions and from the improved disputes procedures;
- however, the direct trade effects are less benign in that the Uruguay Round agreement implies the erosion of preferential access to developed country markets – in the case of the Commonwealth Caribbean countries through the Generalized System of Preferences, through Lomé IV and through the Caribbean Basin Economic Recovery Act: on balance this means that the direct trade effects will be unfavourable;
- for some of these countries, the loss in the value of special access arrangements for exports of sugar or rice to the European Union will be most significant (Barbados, Guyana, Jamaica, St. Kitts and Nevis);
- bananas are particularly important for some of the countries: the new EU regime for bananas, though not in essence a Uruguay Round effect, implies major losses in export revenues for Belize, Jamaica and the Windward Islands (Grenada, St. Lucia and St. Vincent and the Grenadines);
- in tropical products, such as cocoa and coffee, in fish and in manufactures the Uruguay Round will lead to losses in preference margins on the EU and North American markets, which will discourage the expansion in these sectors: outside of clothing these effects will be limited;
- several Commonwealth Caribbean countries have been expanding their exports of clothing: the main result of the elimination of the MultiFibre Arrangement (MFA) quotas on developing country exports will be to undermine the special access the Caribbean countries enjoy, through Lomé, on the EU market and through the special tariff treatment of clothing made from US-formed and -cut cloth on the US market (807A products): the latter effect will mainly impact on Jamaica;
- the main direct effects of NAFTA on the Commonwealth Caribbean will be trade diversion to Mexico through the phasing out of tariffs and quotas on Mexican apparel exports to the United States over the coming five years: in the longer run, that is by the time all MFA quotas are eliminated at the end of ten years, this effect will be overwhelmed by the availability of much cheaper goods from the low income countries of Asia, particularly China and India;
- the Jamaican apparel industry, which largely depends on the special tariff treatment of 807A goods, requires NAFTA-parity treatment, i.e. tariff-free entry into the US and Canadian markets, to compete with Mexican apparel over the next five years: in order to survive in the longer term, the region's clothing industry will have to exploit its geographical and cultural closeness to those markets and probably shift into fashion or other niche products;

- in other goods, including certain chemicals and fuels, there may be small effects on Caribbean exports to North America through the erosion of preferences vis-à-vis Mexico: another area where the Caribbean could be hurt, given that Mexico now has a fixed ceiling on sugar exports to the US, is through squeezing Caribbean quotas when US production is high;
- the General Agreement on Trade in Services (GATS) will not radically improve opportunities for Caribbean services exports, particularly as the export of labour services is excluded: as regards services imports the Caribbean markets are already largely open: in the longer run the GATS heralds a more open trade regime in services, which will benefit Caribbean services exports to the extent the necessary comparative advantages can be developed;
- the most serious impact of NAFTA is likely to be through foreign direct investment: the relative attraction of investment in Mexico is increased: even where tariff differentials are nil or minimal, foreign direct investment (FDI) will be attracted to Mexico by the greater security of barrier-free access to the US and Canadian markets assured by NAFTA, than by the special access arrangements of the Caribbean countries to the US and Canadian markets which can be withdrawn at any time;
- the improved position of Mexico in regard to FDI applies both to US and Canadian investors and those from outside North America who are looking to supply the North American markets: outside investors will be encouraged by the liberal regulatory and fiscal environment established by the Mexican government which is not skewed in favour of NAFTA investors;
- the FDI benefits to Mexico will be slightly mitigated in apparel, where the Caribbean Basin Economic Recovery Act (CBERA) still gives an edge to Caribbean producers through less demanding rules of origin than those that apply to Mexican producers;
- evidence of a NAFTA effect on FDI statistics is not yet easily identified because of the difficulties of separating other factors, in particular the business cycle and political uncertainties;
- as regards policy options to improve the trading outlook of the Commonwealth Caribbean countries and offset some of the negative Uruguay Round and NAFTA effects, the EU could prevent the erosion of special access arrangements for sugar by decoupling the price offered to ACP producers from the intervention price paid to EU farmers: in bananas, quotas should be fully transferable among producer countries, a single quota should be established for the Windward Islands and additional funds should be set aside to assist in diversification into other export goods or services: in rice and other fruit and vegetables, restrictions, either through calendar limitations or tariff quotas, should be eliminated or substantially eased;
- the EU should ease its rules of origin on imports of manufactures from the ACP, which in some cases act as a major obstacle to developing new export sectors;
- in the short run, the Caribbean countries should press for NAFTA-parity, though that should not be limited to 807A apparel exports, where the benefits would largely be confined to Jamaica: however NAFTA-parity is necessary to ensure the survival of the 807A apparel sector over the next five years;
- NAFTA-parity arrangements are unlikely to assure equal treatment with NAFTA members in the tariff treatment of new export products, or any security from contingent protection such as

anti-dumping or safeguard actions which might be negotiated within NAFTA;

- full membership of NAFTA in its present or expanded form is the appropriate trade policy for the Commonwealth Caribbean countries: only full membership will ensure parity of treatment in the long term, as regard all trade and investment flows;
- membership would involve allowing tariff-free access to exports from other NAFTA members, though, taking account of the advantages of lower-cost inputs and the positive impact of competition, this could have positive effects in the medium term; also, experience with the existing NAFTA suggests that sectors that are particularly sensitive for employment or other reasons can be given longer to adjust;
- tariff-free entry might also have to be extended to the EU if the benefits of membership of the ACP group are to be retained: again this could have medium-term benefits rather than costs;
- CARICOM should be strengthened to accelerate the completion of the customs union, and later the common market, in factors of production: there is also a role for CARICOM in co-ordinating policy in tourism, transport, telecommunications and other sectors where there are clear gains from a regional approach: however, the most important function of CARICOM may be as a single regional organisation for negotiating membership of an expanded NAFTA.